

CITY OF OAKLAND
COUNCIL AGENDA REPORT

TO: Office of the City Manager
ATTN: Robert C. Bobb
FROM: Community and Economic Development Agency
DATE: July 18, 2000
RE: **INFORMATIONAL REPORT ON THE FINAL RECOMMENDATIONS OF
THE HOUSING DEVELOPMENT TASK FORCE**

SUMMARY

This informational report presents the final recommendations of the Housing Development Task Force. Approved by the City Council in November 1999, the Task Force met from February to June to consider a wide range of housing issues. The Task Force has reached consensus on a set of recommendations that fall into four broad categories:

- Preserving and Improving Existing Housing
- Leveraging Opportunities Created by New Development Activity to Produce Affordable Housing
- Creating Regulatory and Procedural Incentives for Developers
- Expanding Financial Resources for Housing

The Task Force has identified specific policies under each of these categories, which are described later in this report.

Staff is recommending that the City Council approve these policies and direct staff to move forward to prepare legislation and identify funding to implement the Task Force's recommendations.

FISCAL IMPACTS

There are no immediate fiscal impacts associated with the acceptance of most of the recommendations as general policies.

The preparation of a nexus study to justify a proposed linkage fee will require funding of approximately \$100,000. Funds will be identified by staff before the study is initiated.

Adoption of some of these policies may generate the need for additional staff resources to design and carry out new programs and implement new zoning requirements.

Implementation of specific policies could have significant revenue impacts whose direction and magnitude can not be determined at this time. Possible impacts include increased revenues for preservation and development of affordable housing, particularly if the linkage fee proposal is adopted.. If some of the policies are perceived by developers as a hindrance to development, there may be a reduction in revenue if development activity is reduced. On the other hand, the

proposed incentives and new funding sources could increase development activity and enhance revenues from permit fees, property taxes, and business taxes. Secondary effects could also include increased retail sales taxes resulting from spending by new Oakland residents moving into new housing. If existing Oakland residents move into new affordable housing, and as a result experience a reduction in their housing costs, the increase in available income will also generate additional spending.

As specific implementation strategies are brought before the Council for approval, fiscal impacts will be examined in more detail.

BACKGROUND

At the September 30, 1999 meeting of the Rules Committee, Councilmember Brunner called for the formation of a housing policy task force to address an array of issues that had recently come before the Community and Economic Development Committee and the City Council as a whole. The Rules Committee referred the matter to the Community and Economic Development Committee, and staff was requested to prepare a set of recommendations.

On December 7, 1999, staff presented to the Community and Economic Development Committee a report on the formation of a task force to consider policy alternatives for development of housing. The report was presented to the full City Council on December 21, 1999, at which time the Council approved the report and provided direction to staff on the composition and scope of the new task force.

As directed by Council, the Task Force was comprised of representatives from a wide range of constituencies in order to bring a variety of perspectives to these issues. A number of expert advisors were utilized on key issues, and staff from the Community and Economic Development Agency also participated in the discussions. A professional facilitator was hired to assist the Task Force to stay focused on the issues, to encourage full participation from all members, and to work to achieve consensus on the final recommendations. A full listing of participants is included in Attachment 2.

The Task Force met six times over a five month period. In addition, subcommittees were formed to research issues and frame discussions for the Task Force as a whole.

Given the complexity of the issues and the time constraints faced by the Task Force, it was not possible to fully address all the issues listed above. The Task Force devoted considerable time and effort to serious consideration of housing issues, and the members should be commended for their dedication and commitment.

KEY ISSUES AND IMPACTS

The sustained economic expansion of the 1990s has resulted in many positive benefits. These successes have also posed new challenges. Economic growth has not been met by increases in the production of housing. The result has been a rapid escalation of housing prices and rents. Statewide, housing production in the 1990s is less than half the figure for the 1980s. Multifamily housing production is less than one third of its 1980s rate. Particularly in the Bay Area, it is becoming increasingly difficult for households of all income levels to find decent affordable housing. Many economists now identify the cost and supply of housing as one of the primary constraints on continued economic expansion.

Oakland has not been immune from these trends. The Consolidated Plan for Housing and Community Development, adopted in June of this year, identified unmet housing needs for over 80,000 households. Nearly 70 percent of these households qualify under HUD rules as low and moderate income, with annual incomes less than \$35,000 for a single person and \$50,000 for a family of four.

The most recent projections issued by the Association of Bay Area Government also point to a pressing need for a substantial increase in housing production over the next six to seven years. The Regional Housing Needs Determinations, which establishes production goals for the City's Housing Element, identifies the City's total housing need for the period 1999-2006 at 7,733 units, or approximately 1,100 units per year. This figure is substantially higher than the original figure issued by ABAG in December 1999. Forty percent of the projected need is expected to be for housing affordable to households meeting the HUD definition of low and moderate income. **Further discussion of the revisions to the ABAG Regional Housing Needs Determinations is contained in an accompanying staff report.**

The changes in the housing market and public concerns about housing cost and availability have brought to the forefront a number of issues:

- Economic growth has led to an increase in demand for housing in Oakland, causing a rapid escalation of sales prices and rental rates, and has raised concerns that many households could be priced out of Oakland's market just as the City is beginning to experience a significant improvement in its economic conditions.
- The Mayor's initiative to bring 10,000 new residents to downtown has raised issues about how to attract and encourage new development and about the appropriate mix of market rate and affordable housing.
- The renewed emphasis on blight and neighborhood conditions has led to increased focus on the role of housing in neighborhood revitalization, evidenced most noticeably by the recent amendment to the Consolidated Plan that established a Targeted Neighborhood Housing Program.
- Rapid increases in construction costs have renewed calls for measures to contain the cost of developing new housing.

In response to these trends and concerns, the Housing Development Task Force was formed to address the following issues:

- Location of higher density housing
- Methods to reduce the cost of developing housing
- Determining an appropriate balance between ownership and rental housing
- Production of affordable housing
- Preservation of the existing supply of assisted housing
- Inclusion of affordable housing as part of the Downtown 10K initiative
- Alternative mechanisms for financing neighborhood revitalization
- Addressing neighborhood concerns regarding the siting of new housing developments

POLICY DESCRIPTION (TASK FORCE RECOMMENDATIONS)

The final recommendations of the Housing Development Task Force fall into four broad categories, with specific policy recommendations for each objective.

OBJECTIVE 1: PRESERVATION OF EXISTING HOUSING RESOURCES

- Acquire, rehabilitate and preserve the existing housing stock
- Establish a replacement housing requirement
- Preserve and improve existing single room occupancy hotels
- Establish a task force to identify mechanisms to prevent existing affordable housing from being converted to market rate

OBJECTIVE 2: LEVERAGE OPPORTUNITIES CREATED BY NEW DEVELOPMENT

- Establish linkage fees for commercial and office development
- Adopt an inclusionary zoning ordinance

OBJECTIVE 3: CREATE INCENTIVES THAT REDUCE THE COST OF DEVELOPMENT OF HOUSING

- Provide fast track processing for housing projects containing affordable housing units.
- Modify the building code to permit an extra story in wood-frame construction.
- Reduce parking requirements for housing projects located along transit corridors and in high density areas.

OBJECTIVE 4: INCREASE FINANCIAL RESOURCES FOR AFFORDABLE HOUSING

- Work with banks to expand the supply of capital for affordable housing
- Create a housing trust fund
- Make increasing funds for affordable housing a high priority for lobbying and other advocacy work in Sacramento and Washington, D.C.

The Task Force recommendations are presented in greater detail in Attachment 1.

ENVIRONMENTAL OPPORTUNITIES

Adoption and implementation of the Task Force recommendations would create opportunities to further the City's environmental policy goals. Production of in-fill housing and higher density housing along transit corridors is a principal component of sustainable development. To the extent the City meets the production goals contained in the Regional Housing Needs Determination, this production would counteract tendencies toward urban sprawl.

DISABILITY AND SENIOR CITIZEN ACCESS

Production of housing along transit corridors and close to transit nodes can be particularly beneficial to seniors and persons with disabilities. Because these populations tend to have lower incomes than the population as a whole, policies that encourage the development of affordable housing will have particular benefits for these groups.

RECOMMENDATION(S) AND RATIONALE

As noted in this report, the City is facing a severe housing crisis. Housing production is not meeting the demand, and housing prices and rents are rapidly escalating. Failure to produce sufficient housing could be a brake on economic development.

Because the recommended policies would stimulate an expansion of housing production and preservation of existing housing resources, staff recommends that the Council accept the final recommendations of the Task Force and move quickly to implementation.

OTHER ISSUES CONSIDERED BY THE TASK FORCE

There were some issues which the Task Force discussed, but did not include in their final recommendations, either because of lack of time or an inability to reach full consensus. Nonetheless, the Task Force believes that these issues are worthy of further discussion and consideration, particularly because they address the issue of how and where to locate affordable housing as part of the City's overall housing effort. These include the following:

- Establishing a general policy that 25 to 30 percent of the total units built as part of the 10K downtown housing initiative should be affordable to low and moderate income households.
- As part of the zoning update being conducted to implement the General Plan, establishing minimum density requirements in certain zones (promote sustainable in-fill development and provide developers with clearer signals about desired uses and densities prior to initiating a project), and create zoning for transit-oriented residential development.
- How to deal with issues of neighborhood opposition to the siting of multi-family housing, and especially affordable housing developments. Such opposition could prevent the City from reaching its regional housing goals unless enough development sites can be identified.

ACTION REQUESTED OF THE CITY COUNCIL

Staff requests that the City Council take the following actions:

1. Adopt in full the policy recommendations of the Housing Development Task Force.
2. Direct staff to develop implementation strategies and the necessary legislation to carry out these policies, and return to Council at a future date with specific recommendations.
3. Direct staff to identify additional staffing requirements that might result from implementation of these policies, and identify possible revenue sources to cover these costs.
4. Authorize the City Manager (or his designee) to solicit and award a contract for completion of the nexus study required to implement the linkage fee proposal. The cost of such a contract may be up to \$100,000. Approval of the contract would be contingent on identifying an available and eligible funding source. The nexus study should be initiated and completed as soon as feasible.

Respectfully submitted,

WILLIAM E. CLAGGETT
Executive Director

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Roy L. Schweyer, Director,
Housing and Community Development Division
Jeffrey P. Levin,
Housing Policy and Programs Coordinator

APPROVED AND FORWARDED TO THE
COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE

OFFICE OF THE CITY MANAGER

Attachment 1:

FINAL RECOMMENDATIONS OF THE HOUSING DEVELOPMENT TASK FORCE June 15, 2000

OBJECTIVE 1: PRESERVATION OF EXISTING HOUSING RESOURCES

The existing housing stock, including housing specifically for low and moderate income households, is a vital housing resource. The cost and difficulty of replacing these resources makes their preservation a high priority for meeting Oakland's housing needs. Preservation should include both physical preservation and improvement through rehabilitation, and financial preservation of existing affordable housing.

Policy 1.1: Acquire, rehabilitate and preserve the existing housing stock.

The City should prioritize a policy to preserve existing housing through upgrades and renovation. In particular, the City should purchase and rehabilitate homes in West Oakland and other threatened neighborhoods and preserve them as affordable housing.

The City should investigate and establish methods and policies, including receivership, to obtain purchasing priority at judicial and private foreclosure sales. Properties acquired in this manner should be made available to non-profit, affordable housing developers or low and moderate income first-time homebuyers.

The City should work with the District Attorney's office, other public agencies, and City departments to reclaim and preserve as affordable housing any properties seized through drug enforcement, code enforcement, blight abatement and other similar actions.

Policy 1.2: Establish a replacement housing requirement

Institute one-for-one replacement policies that require that any affordable housing units demolished in the City be replaced with comparable affordable units within the City.

Policy 1.3: Preserve and improve existing single room occupancy (SRO) hotels

Existing SROs are an important affordable housing resource. They provide housing of last resort for very low income people, and are the first step out of homelessness for many. Loss of SRO units could exacerbate problems of homelessness and might increase the number of homeless persons on the streets, especially downtown.

Some of these hotels have significant maintenance and management problems. The SRO stock should be brought up to code and maintained as affordable housing under qualified management.

Policy 1.4: Establish a task force to identify mechanisms to prevent existing affordable housing from being converted to market rate

A substantial number of existing assisted housing units could convert to market rate if Section 8 contracts are not renewed by the owners, or if other Federal and State regulatory restrictions are removed as a result of prepayment of mortgages or other actions. Loss of these units, many of which are occupied by seniors, could result in displacement of the current residents as well as the loss of resources that would be extremely expensive to replace.

The City should establish a task force to identify policies, programs and resources that will preserve these units as affordable housing over the long term.

OBJECTIVE 2: LEVERAGE OPPORTUNITIES CREATED BY NEW DEVELOPMENT

The City is currently experiencing a substantial increase in real estate development activity. This success creates opportunities to generate new funds for affordable housing development, or to directly produce affordable housing units within mixed-income developments. The Task Force recommends that the City move quickly to leverage these opportunities.

Policy 2.1: Establish linkage fees for commercial and office development

New office and retail development generates new employment that in turn creates increased demand for housing. To offset these impacts, linkage fees should be established to create funding for the required housing. Linkage fees are charged based on the amount of space being developed. Linkage fees in other cities include \$1 per square foot in Sacramento, \$4 per square foot in Santa Monica, and \$7 per square foot in San Francisco.

The City should allow developers the option of building affordable housing units either on-site or elsewhere in the City, instead of paying the linkage fee.

A nexus study is required to establish the specific link between non-residential development and increased housing demand, and to determine the appropriate fee to be assessed. The cost of such a study is estimated at approximately \$100,000.

The Task Force recommends that this study be initiated as soon as possible.

Policy 2.2: Adopt an inclusionary zoning ordinance

Inclusionary zoning requires that developers of housing provide some affordable units within each development. Such a requirement helps to distribute affordable housing throughout the City and provides for mixed-income developments. It builds on the strength of the housing market to ensure that new housing be affordable to a range of incomes.

The Task Force recommends adoption of an inclusionary zoning ordinance that would require developers of market-rate housing to either include affordable units within their projects or pay an in-lieu fee to a City trust fund to finance affordable housing developments.

The policy should be adopted immediately, but implementation of the ordinance would be delayed for a period sufficient to avoid penalizing projects that are currently in the pipeline. Staff should develop specific guidelines for determining the specific timing and provisions to achieve this objective.

The ordinance should be implemented simultaneously with the linkage fee proposal, to avoid the creation of incentives that encourage commercial/office development instead of housing.

A number of elements to the proposed ordinance are recommended:

- Applies to residential developments of 10 or more units
- Should allow developers to meet the requirement by choosing from a range of affordability options (for example, 20% of units affordable at 80% of median income, or 15% at 50% of median income, or 10% at 35% of median)
- Long term affordability must be included
- In-lieu fees should be set at a level sufficient to finance the required affordable units

The Task Force also recommends the adoption of incentives that would increase the financial feasibility of including affordable units in market-rate development. These are discussed below as part of Objective 3.

OBJECTIVE 3: CREATE INCENTIVES THAT REDUCE THE COST OF DEVELOPMENT OF HOUSING

The Task Force considered a variety of mechanisms for reducing the cost of housing by speeding up the review process, allowing more units to be built on a site, or reducing costly requirements. The following items are specifically recommended, but the Task Force encourages exploration of other incentives as well.

Policy 3.1: Provide fast-track processing for housing projects containing affordable units.

Create a one-stop permit center for housing development projects that contain units that will have long-term affordability. A specific City staff member should be assigned to work with these applicants. Planning and zoning staff at all levels should be involved in any redesign of procedures and workflow.

Policy 3.2: Modify the building code to permit an extra story in wood-frame construction.

Allowing an additional story in wood frame buildings would provide more intensive use of scarce land without requiring a change in construction type, making a project more feasible for developers.

This policy has been successfully implemented in other cities, including Seattle, Washington.

The Task Force discussed the fact that there may be safety issues, particularly with respect to seismic standards, that must be addressed before implementing this policy.

Policy 3.3: Reduce parking requirements for housing projects located along transit corridors and in high-density areas

Parking can add significant costs to a housing development. Reduced parking requirements may be an incentive to some developers by reducing the total cost of development. In other instances, market or financing considerations may prevent developers from taking full advantage of this incentive. The Task Force recommends that this policy be included as part of package of possible developer incentives.

OBJECTIVE 4: INCREASE FINANCIAL RESOURCES FOR AFFORDABLE HOUSING

The lack of both private and public financing is a major obstacle to meeting the City's affordable housing needs. The Task Force recommends that the City increase its efforts to secure new funding for housing.

Policy 4.1: Work with banks to expand the supply of capital for affordable housing.

The City should initiate and support efforts to encourage the banking industry to expand the financing it makes available for affordable housing development. One possible approach would be to expand the criteria used in the City's Linked Deposit Ordinance to give greater weight to a lender's record in financing affordable housing developments in the City.

Policy 4.2: Create a housing trust fund

A housing trust fund would be a permanent source of financing for affordable housing. The trust fund would be dedicated solely to affordable housing, and would be kept separate from the General Fund.

The Task Force recommends that City identify revenue sources that could be used to create such a fund. Among the sources discussed were the linkage fee and the inclusionary zoning in-lieu fee, both described under Objective 2.

Policy 4.3: Make increasing funds for affordable housing a high priority for lobbying and other advocacy work in both Sacramento and Washington, D.C.

Federal funding for affordable housing is inadequate to meet the need. Funding levels have remained relatively constant, or even declined, and this does not include the effects of inflation on those funding levels. The State has provided little or no funding for housing for the past 10 years. The proposed 2000-2001 State budget provides substantial funding for housing on a one-time basis, but does not provide a permanent source of financing.

The Task Force recommends that the City make lobbying efforts for housing funds a high priority item, including the possibility of dedicating more time and resources to this issue.

Attachment 2

Housing Development Task Force Participants

Members

<i>Name</i>	<i>Organization</i>
John Benson	Bank of America
Catherine Bishop	National Housing Law Project
Jean Blacksher	Toler Heights Neighborhood Association
Robert Dhondrup	Alameda County Central Labor Council
Jon Gresley	Oakland Housing Authority
Sean Heron	East Bay Housing Organizations
Victoria Jones	The Clorox Company
Andrew Montgomery	Sojourner Truth Senior Center
Carl Anthony	Urban Habitat
Julie Quiroz	Urban Habitat
James Vann	EBHO, PAAC, COC
Kate White	Urban Ecology

Expert Advisors

<i>Name</i>	<i>Organization</i>
Jeff Hanson	The Jenshel Company
Lynette Lee	East Bay Asian Local Development Corporation
Michael Pyatok	Pyatok and Associates
Denise Smith	Royal Realtor and Loan Services
Ray Timmermans	Mayor's Commission on Persons with Disabilities

City of Oakland Officials and Staff

<i>Name</i>	<i>Organization</i>
Councilmember Jane Brunner	Chairperson, Community and Economic Development Committee
Susan Click	Council Aide
Megan Van Sant	Council Aide
Roy Schweyer	Director, Housing and Community Development Division (CEDA)
Janet Howley	Housing Development Manager (CEDA/HCD)
Jeffrey Levin	Housing Policy and Programs Coordinator (CEDA/HCD)
Bob Lyons	Chief Negotiator (CEDA/Redevelopment)
Jake Lavin	UC Berkeley grad student (CEDA Intern)
Sunny Nguyen	UC Berkeley grad student (CEDA Intern)